



COMMUNITY HOUSING PROVIDERS SPECIAL INTEREST BULLETIN



How would you describe your relationship with your suppliers – transactional, passive, partnering, or long-term and strategic? *And where should the relationship be?*

Welcome to a new Special Interest Bulletin for community Housing Providers. This is a regular publication featuring topics related to your sector. Our goal with each bulletin is to spark your thinking, and connect you with ideas and content that will directly impact your organisation’s effectiveness and efficiency, and help you to better service your customers.

This edition: Improving supplier relationships by delivering value to your tenants and your organisation.

Research:

The International Association for Contract and Commercial Management (IACCM) calculated that poor contract management practices are costing businesses an average of 9% of revenues each year.

A KPMG survey of outsourcing suppliers found that **without close contract governance, businesses stand to lose up to 40% of a contract’s value.**

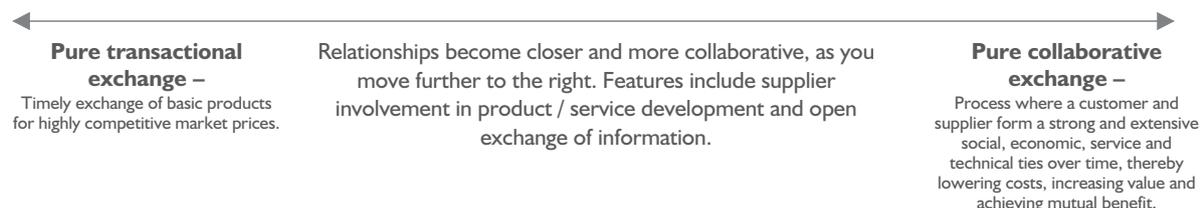
According to procurement consultancy, The Faculty, **less than 50% of negotiated savings are typically realised over the life of a contract.**

<https://www.gatekeeperhq.com/blog/the-benefits-of-contract-management-in-numbers>

Effective supplier relationship management is derived from the systematic management of contract value through interactions with suppliers over the contract life.

Types of Relationships – complex purchasing decisions all have a degree of uncertainty.

Relationship quality is achieved when suppliers have the ability to reduce this uncertainty and have visibility of value-add criteria.



Relationship quality has two dimensions – trust and satisfaction.

Improving the supplier relationship requires an understanding of:

- > How much the organisation spends with what contractors and how that spend is translated into performance and the customer experience;
- > The relationship health and value between the contracting parties; and
- > An operations framework or model that manages the interplay between the two parties.

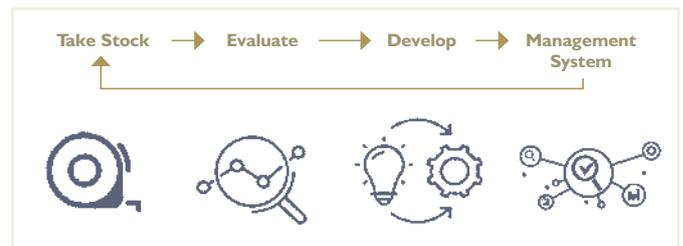
Like any other sector, suppliers play a crucial role in the success of Community Housing Providers (CHPs). CHP supplier relationships need to be aligned with the corporate values and mission of the organisation, and conducted in a healthy and transparent manner to drive the best outcome for the tenant, community and organisation. Suppliers with the strongest relationships with the organisation should also represent those with the potential to deliver the highest value-add in terms of quality, delivery, cost, compliance and volume of work.

In order to continue to enhance the tenant experience, maintenance performance is a high priority for CHPs. Central to meeting tenant expectations is having strong relationships with maintenance suppliers.

Working in partnership with Coxswain Alliance, an Australian CHP with an excess of 5,000 properties under management developed an approach to significantly improve their relationships with suppliers and tenant outcomes. They embarked on a program to assess their suppliers and implement new supplier management practices to effectively manage these relationships on an ongoing basis.

Summary of the Program

- 1. Take stock of the relationship.** What's in place, how much gets done, and how well does this match our tenants' requirements and our organisation's goals? The purpose is only to expend effort with active, valuable partners.
- 2. Evaluate and develop the relationship.** Match the data of the value and relationship expectations to the current performance to have a fact-based discussion, set actions, eliminate defects and move to regular reviews.
- 3. Establish a Management Operating System (MOS) or operating model to manage the relationship.** Develop the MOS and associated operating rhythm to drive the requirements, practices and behaviours, and measure the results so that there is a structured framework and facts to inform decisions and actions.



Breakdown of the Program

Step 1: Take Stock

The organisation needed to gain an understanding or perspective of the number of suppliers, the amount spent on each, the quality of the services provided, and how well the supplier fits the organisation's needs.

The relevance of supplier population was determined, which entailed some analysis and categorisation – this is essential if you are going to determine spend and job allocation for each supplier. Through this process it was identified what percentage of maintenance spend was being allocated to suppliers.

The suppliers were grouped by spend, i.e. 80%, 80-95%, 95-100% and zero. Ultimately the objective is to determine which suppliers should be retained based on \$ spend and perceived performance.

Finally, suppliers who were not relevant were removed from the supplier database, thereby reducing future administrative load time on the organisation – the first improvement!

With the new perspective, the organisation was in a position to ask the question – are our contract partners adding value and representing our organisation in the manner we expected?

Step 2: Evaluate and Develop

In order to assess supplier performance, criteria was established across the perspectives of quality, delivery, cost and compliance. Each supplier was then evaluated against this criteria with the following considerations:

- > Is the supplier adding value to the contract, agreement or arrangement, to your business?
- > What is the value-adding activity that your organisation and your tenants experience?

EVALUATE

Value performance expectations:

- > Quality, cost, delivery – 'the right job, at the right cost, at the right time'.
- > Maintaining, creating and adding value to contract, agreement or arrangement – no follow up and no 'lost time', e.g. rework.
- > Doing what is expected – how, when and at a reasonable cost.
- > Adhering to the set processes, with exceptions highlighted in advance.
- > Strict compliance to the rules, regulations, processes and procedures.
- > Identifying and quantifying value-adding opportunities, e.g. regularly includes quote extensions.

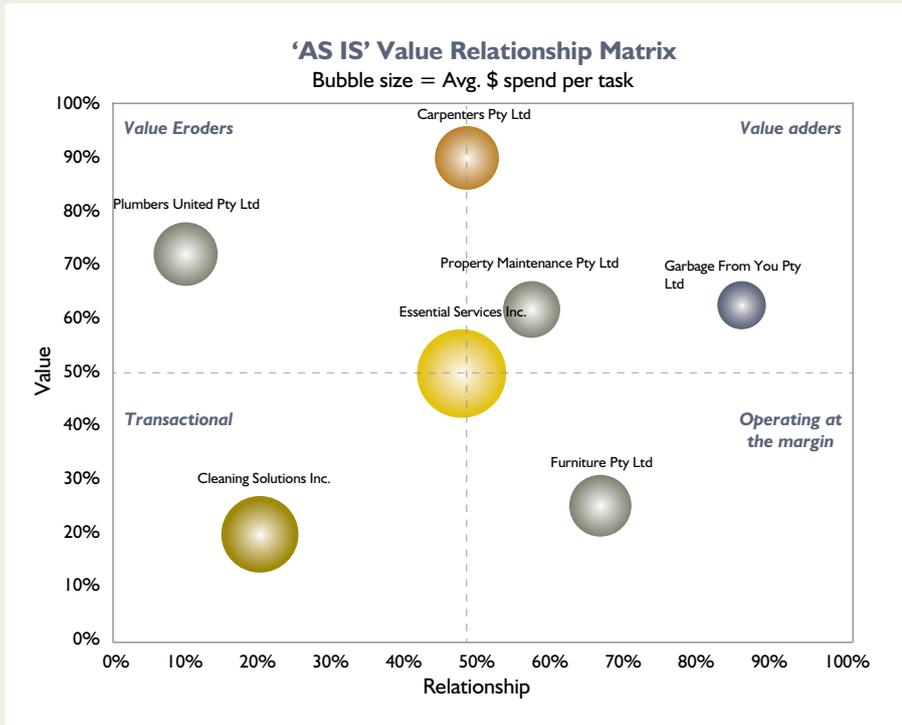
Relationship expectations:

- > What is the current relationship that you have with your supplier?
- > What does good look like, i.e. what is the relationship that you need for your business?
- > What is your strategic intent for this supplier?



The outcome of this evaluation was an assessment of each supplier by group using the performance criteria and the creation a Value / Relationship Matrix 'bubble plot.'

Current ('As Is') State



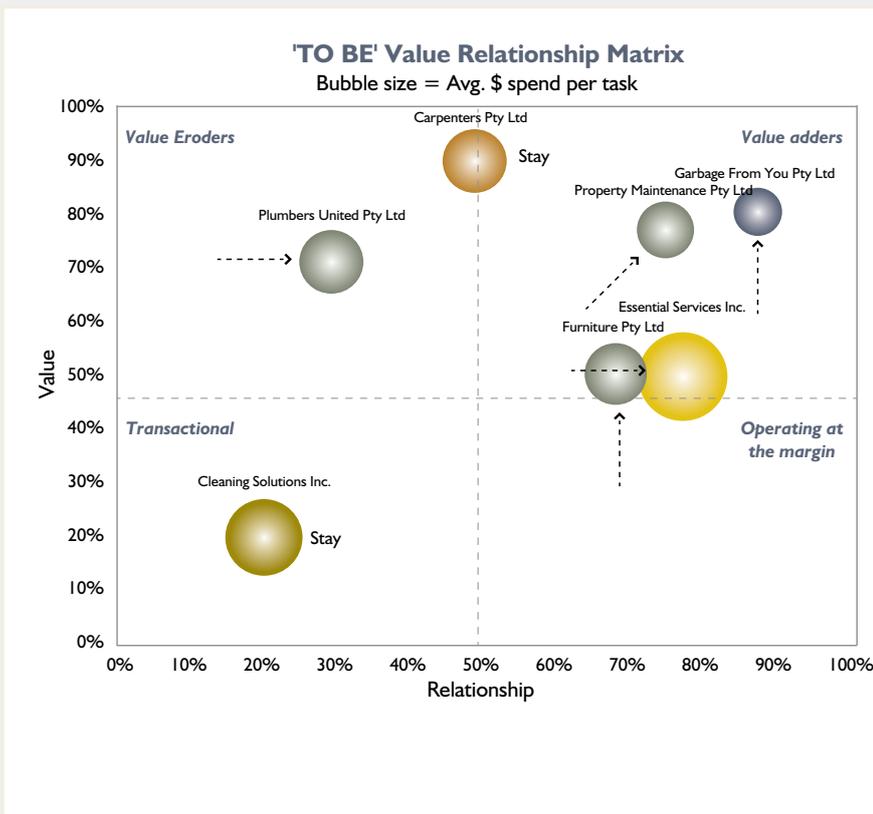
“In a very real sense, there are only two roles in organisations: customers and suppliers. Everybody functions simultaneously in both roles, whether inside or outside the organisation the essence of good business, therefore, is the quality of relationship between customer and supplier.”

Stephen Covey, educator, author, businessman and keynote speaker

DEVELOP

Once the evaluation was complete the organisation developed a clear view of the relationship they wanted from their suppliers. They were in a position to determine a development path for suppliers who warranted the organisational effort and wanted an improved partnership ('move') or to allow other suppliers to continue in their current mode ('stay'). Developing suppliers is a longer process. Once candidates were identified, the organisation began to use the performance criteria and strategic vision to provide regular feedback to suppliers using data.

Future ('To Be') State



Considerations:

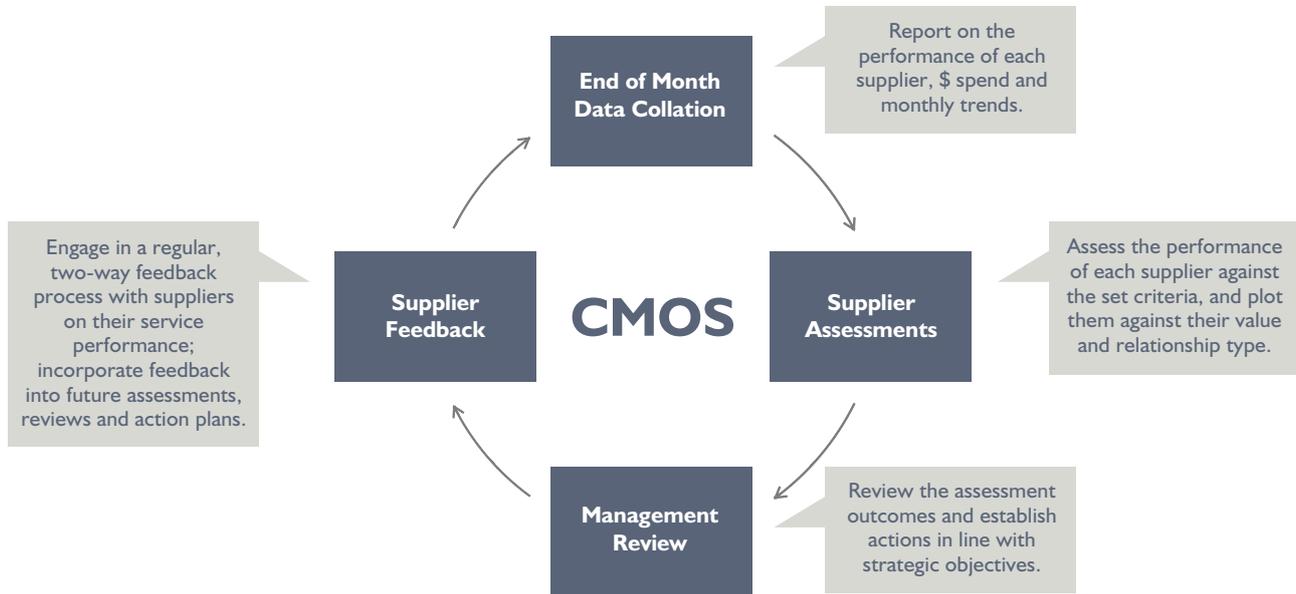
- 1) Current position
- 2) Potential value, relationship and actions to develop
- 3) \$ cost per job

	Status	Development
Stay	Used as required, satisfactory value-add. Services being consolidated.	Enhanced relationship not required. Minimise administration impact.
Move ----->	Value-add at the right level. Service gap exists in business portfolio.	Provide repeat transactions. Build loyalty.
Move ↑	Value-add is not at the right level. Satisfactory relationship and \$ cost per job.	Focus on quality, delivery and compliance. Extract value from existing relationship.
Move ↗	Low-medium level in terms of value-add and relationship. Satisfactory \$ cost per job.	Supplier is of strategic importance. Engage in longer term arrangements. Build value-add capability, supported by MOS.

Step 3: Establish a Management Operating System (MOS)

With this clarity and direction, the organisation established a MOS to drive, measure and sustain the performance of suppliers. A MOS is how the organisation manages its people, process and technology to deliver or create value described by the strategy, i.e. it turns the 'what' into the 'how'. An example of a supplier MOS, sometimes known as the Contractor MOS or CMOS:

Contractor MOS (CMOS): Ongoing cycle of management and continuous improvement



KEY ELEMENTS OF A CMOS.

- > Consistent criteria used for all supplier assessments – value-add relationship.
- > Simple assessments methods / tools that are easy to understand and use.
- > Value / Relationship Matrix 'bubble plots', providing a visual display that will enhance 'move' / 'stay' decisions and development of succinct supplier feedback.
- > Regular discussions with suppliers about performance, the business relationship and improvement opportunities.
- Redistribution of jobs and \$ spend to the broader contractor group reduces \$ spend per job by negotiating better rates for allocated higher volumes. For example, a 5-15% impact on a \$2 million spend equates to potential savings of up to \$300k.
- > Ongoing process improvement and innovation through the sharing of ideas and feedback.

A CMOS 'cements' the work done to understand, evaluate, and develop supplier partnering, and takes organisational fortitude and rigour to implement and adopt.

BENEFITS OF SUCCESSFULLY ADOPTING A CMOS:

- > Clarity of requirements – both the organisation and suppliers.
- > Defined measures to manage the relationship – what gets measured gets managed.
- > Quantitative and qualitative supplier data to make quick informed decisions and corrective actions leading to reduced costs and variability in service delivery.
- > Consolidated, optimised and reduced contractor numbers resulting in:
 - Reductions in administration and compliance effort for staff, contractors and tenants. For example, a 25-35% contractor reduction with a pool of 300 contractors results in up to 80 hours or 2 'person' weeks per month.

So how would you describe your relationship with your suppliers – transactional, passive, partnering or long-term and strategic? And where should the relationship be?

Learn more about how the **business improvement services** offered by Coxswain Alliance can help you lift the performance of your team and your organisation.

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